

North Carolina Revenue Laws Committee



Lynn R. Holmes
Assistant Secretary

January 4, 2012

North Carolina Department of Commerce
Division of Employment Security

DES Overview Pre-Merger

- ◆ Employs 1,900 Individuals in over 100 Service Locations
 - October 31, 2011 - 1,387 permanent employees; 651 intermittent
 - November 30, 2011 - 1,369 permanent employees; 593 intermittent
- ◆ Central Office, Local Offices, Branch Offices and other service locations
- ◆ Funding
 - ◆ \$250 Million Federal Administrative Funding
 - ◆ \$19.5 million State Appropriation (State Reserve Fund) for local office support and operations
 - ◆ 25 Direct Federal Program Grants
 - ◆ Over 200 State and Local contracts to operate programs
 - ◆ Food Stamp, JobLink, Work First
- ◆ Major Programs
 - ◆ Unemployment Insurance
 - ◆ Employment Service
 - ◆ Veterans Employment Programs
 - ◆ Trade Act Programs
 - ◆ Labor Market Information

DES Overview

- ◆ Paid \$1.4 Billion in Regular Unemployment (UI) Benefits December 2010 to November 2011
- ◆ Paid \$3.8 Billion in Total UI Benefits December 2010 to November 2011
- ◆ Paid UI Benefits to 682,073 Individuals in 2010
- ◆ Over 195,000 Liable Employers
- ◆ Served 883,544 Registered Applicants July 2010 to June 2011
- ◆ Adjudicated over 100,000 claims in 2010
- ◆ Held 53,565 appeals hearings in 2010

Customers

- ◆ Employers
- ◆ Job Seekers
 - ◆ Dislocated Workers
 - ◆ Veterans
 - ◆ Agricultural Workers
 - ◆ Older Workers
 - ◆ Disabled Workers
 - ◆ Students
 - ◆ Ex-Offenders
- ◆ Educational Professionals
- ◆ Economic Developers
- ◆ Workforce Development Professionals
- ◆ Government Officials
- ◆ Researchers
- ◆ Media

Pre-Recession and Now

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
Individuals Receiving at least one UI check	298,401	298,504	414,992	675,300	682,073	593,023
Benefits (million)	\$830.50	\$896.30	\$1,313.60	\$2,727.40	\$2,000.00	1,293.90
Lower Appeals Cases	41,643	35,354	40,592	59,343	53,565	49,654
Unemployment Rate	4.7%	5.0%	8.5%	11.3%	9.80%	10.0%

Recession is defined as occurring between
December 2007 – June 2009

* Does not include December data

Unemployment Compensation Maximum Potential Eligibility

- ◆ Individuals may be eligible for up to **99 weeks** of benefits
- ◆ State Benefits
 - ◆ Regular Unemployment Insurance
 - ◆ UI – **26 weeks**
- ◆ Federal Benefits 2008 - Present
 - ◆ Extended Benefits –
 - ◆ EB – **20 weeks**
 - ◆ Extended Unemployment Compensation Tier I
 - ◆ (EUC Tier I) – **20 weeks**
 - ◆ Extended Unemployment Compensation Tier II
 - ◆ (EUC Tier II) – **14 weeks**
 - ◆ Extended Unemployment Compensation Tier III
 - ◆ (EUC Tier III) – **13 weeks**
 - ◆ Extended Unemployment Compensation Tier IV
 - ◆ (EUC Tier IV) – **6 weeks**

Specific Questions Requested

1. The merger of the NC Employment Security Commission into Department of Commerce
2. Status of any contracts related to recommendations on how to achieve savings through employment security reforms
3. Status of steps taken to achieve savings through ESC organizational reforms

Specific Questions Requested

4. Analysis of how the ESC overpaid \$549 million in unemployment benefits and the steps that have been implemented to ensure such overpayments do not occur in the future
5. A comparison of NC to other states as relates to UI tax structure, UI debt levels, UI benefits, and UI appeals process and decisions
6. An analysis of the trust fund's solvency issue; dates and venues in which the ESC informed the GA of the solvency issue; and recommendations on how to address the solvency issue
7. A description of how NC's unemployment numbers are derived

Specific Questions Requested

8. An analysis of the number of North Carolinians unemployed, the average number of weeks a person receives UI benefits, the average amount of UI benefits a person receives, the number of people who work part-time and receive UI benefits
9. Steps the Division of Employment Security takes to help unemployed to help unemployed people find work and to help businesses who have a shortage of employees find trained or qualified workers
10. Recommendations on what NC could do to reduce its unemployment rate by reforming the eligibility process and UI benefit structure

Trust Fund Discussions

Question 6

- ◆ **March - August 2005:** ESC appeared before various NCGA Committees and Subcommittees to explain the importance of the passage of Senate Bill 757. During which the NCGA was informed that there was a need to replenish the UI Trust Fund due to the 2001 recession and aftermath and SB 757 would be the “fix”. However, before the “fix” totally worked, the 2008 recession struck.
- ◆ **2004-2006 Report on the Biennium:** Deficits in the Fund and the borrowing the ESC had to do in order to pay unemployment insurance benefits were described.
- ◆ **By letter dated January 14, 2009:** Chairman Moses Carey, Jr. informed Governor Beverly Perdue UI Trust Fund may contain insufficient funds to pay benefits as early as the last week of January 2009. Subsequently the Governor’s request to the US Secretary of Labor for repayable advances from the FUA was approved.
- ◆ **By letter dated March 19, 2009:** Chairman Carey recommended a method to repay the loan advances that “will minimize the amount of borrowing the State will incur.”
- ◆ **January 20, 2010:** Chairman Carey and Deputy Chairman Clegg appeared before the Joint Legislative Commission on Governmental Operations, presentation included an extensive analysis of the Trust Fund.

Trust Fund Discussions

Question 6

- ◆ Presentations to Committees on Trust Fund
 - ◆ January 20, 2010 – Joint Legislative Committee on Government Operations
 - ◆ March 16, 2010 – Joint Legislative Committee on Government Operations (Treasurer Presentation)
 - ◆ October 25, 2010 – Meeting with Governor's Staff
 - ◆ September 29, 2010 – Briefing of Fiscal Research Staff
 - ◆ January 5, 2011 – Revenue Laws Study Committee
 - ◆ February 16, 2011 – Joint Committee on Commerce and Job Development
 - ◆ March 9, 2011 – Senate Finance
 - ◆ March 17, 2011 – Joint Appropriations Subcommittee on Natural and Economic Resources
- ◆ Request – March 17, 2011 - Senator Berger request for all communications and presentations relating to Trust Fund Solvency
- ◆ Briefings
 - ◆ Fiscal Staff
 - ◆ Bill Sponsors
 - ◆ Confidential Member Requests

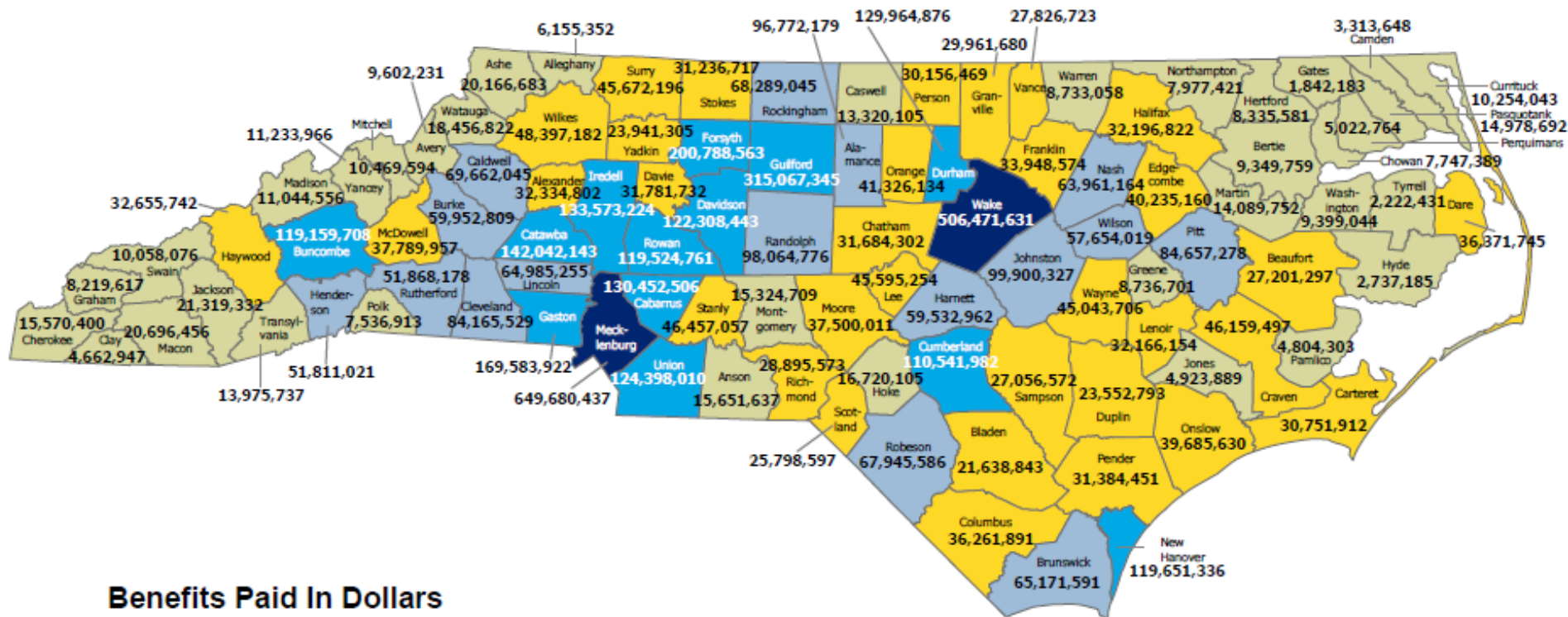
NC Labor Force View

	2011		2010
	<u>November</u>	<u>October</u>	<u>November</u>
<u>Seasonally Adjusted</u>			
Labor Force	4,502,639	4,506,202	4,463,915
Employed	4,051,226	4,038,404	4,024,717
Unemployed	451,413	467,798	439,198
Unemployment Rate	10%	10.4%	9.8%
<u>Not Seasonally Adjusted</u>			
Labor Force	4,496,387	4,510,783	4,464,897
Employed	4,069,246	4,071,114	4,022,183
Unemployed	427,141	439,669	442,714
Unemployment Rate	9.5%	9.7%	9.9%

North Carolina

Trust Fund Regular Benefits Paid by County

July 2008-June 2011



Source: ETA Reporting

Prepared by the Labor Market Information Division, Employment Security Commission of North Carolina 8_2011

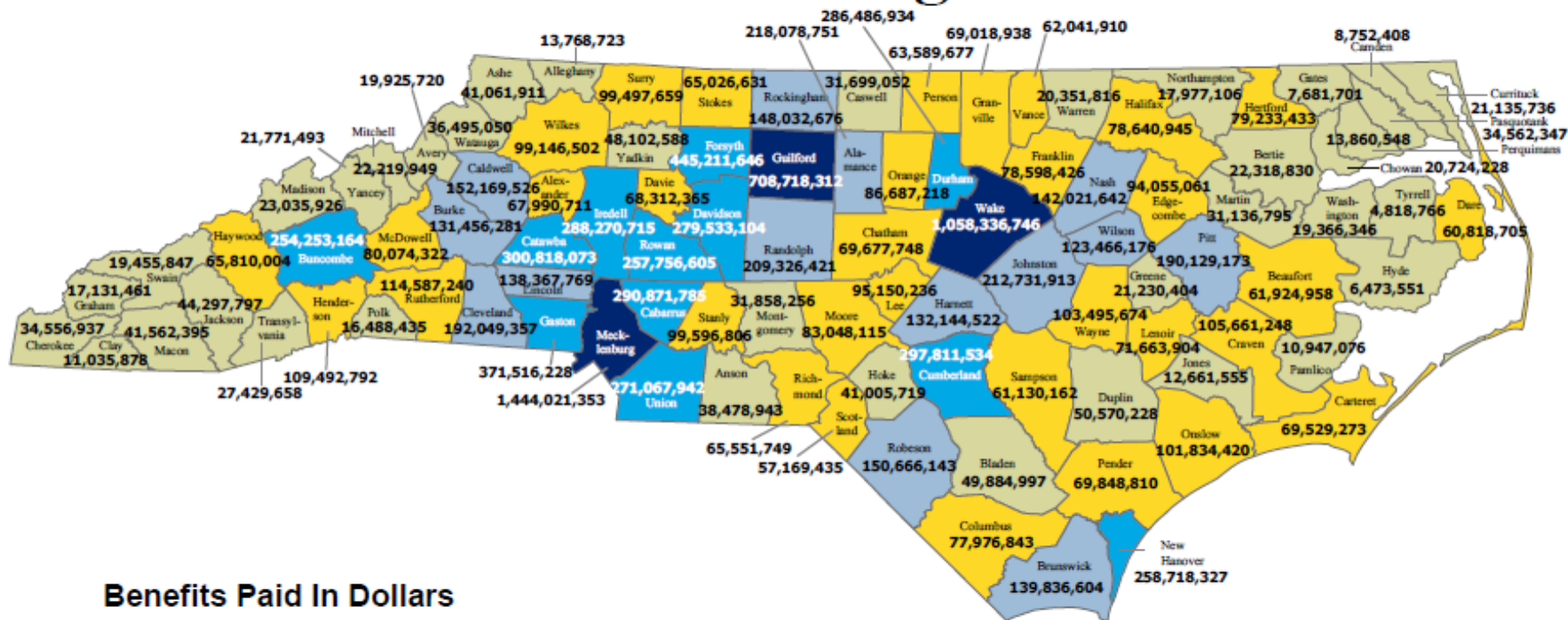
Note: Extended benefits are not included in totals.

North Carolina

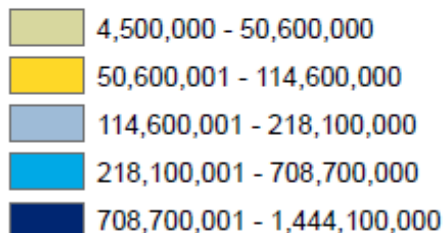
UI Benefits Paid by County

July 2008-June 2011

Total All Programs



Benefits Paid In Dollars



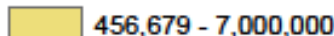
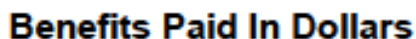
Statewide \$13,369,149,152

Note: All programs include Regular Unemployment Insurance (UI), Emergency Unemployment Compensation Tier I (EUCI), Emergency Unemployment Compensation Tier II (EUCII), Emergency Unemployment Compensation Tier III (EUCIII), Emergency Unemployment Compensation Tier IV (EUCIV), Extended Benefits (EB) and Federal Additional Compensation (FAC). County data does not sum to statewide total.

Source: Employment Security Commission of North Carolina (ESC), Information Systems (IS)

Prepared by the Labor Market Information Division, Employment Security Commission of North Carolina 8_2011

North Carolina



■ 7,000,001 - 16,000,000

■ 16,000,001 - 34,000,000

34,000,001 - 71,000,000

71,000,001 - 146,200,000

Statewide \$1,415,602,767

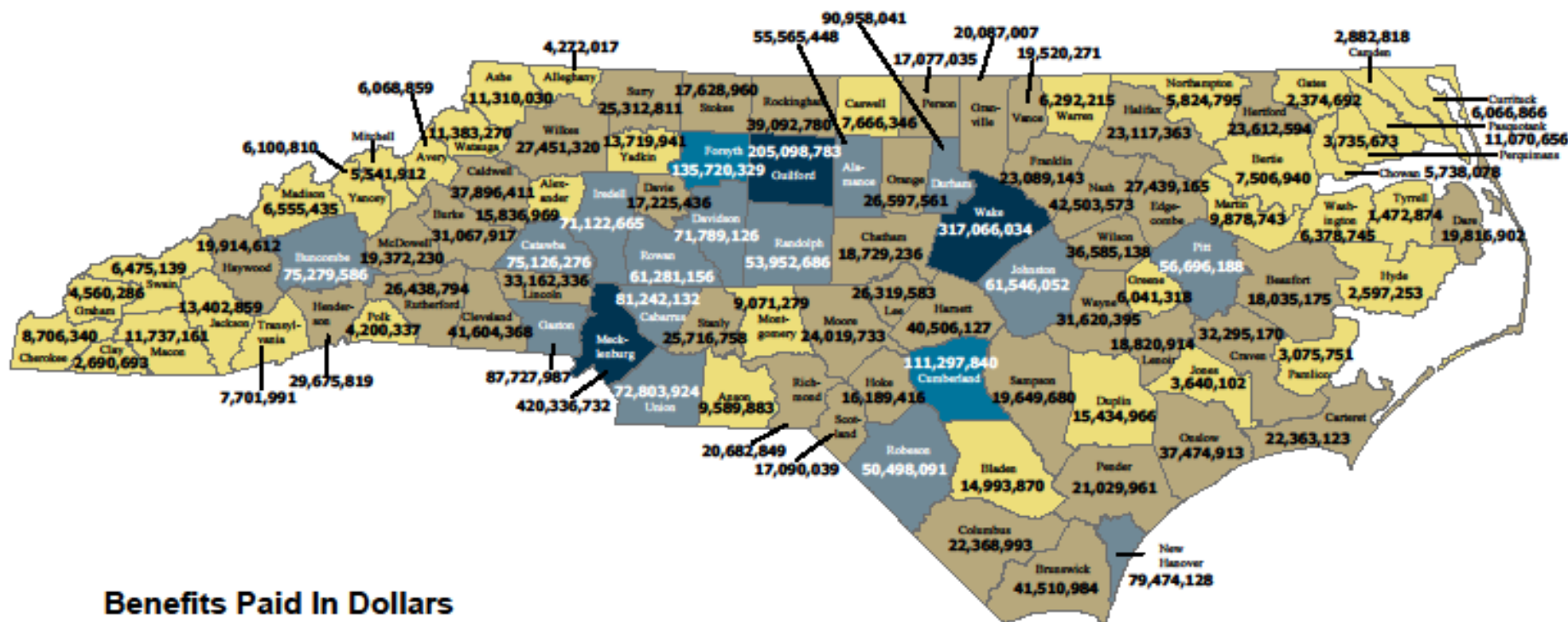
Note: Extended benefits are not included in totals. County data does not sum to statewide total.
Source: WRER, North Carolina Department of Commerce, Division of Employment Security
Prepared by North Carolina Department of Commerce, Division of Employment Security 12/2011

North Carolina

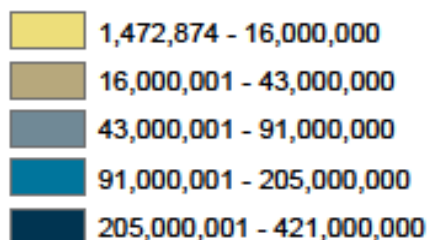
UI Benefits Paid by County

December 2010-November 2011

Total All Programs



Benefits Paid In Dollars



Statewide \$3,827,898,143

Note: All programs include Regular Unemployment Insurance (UI), Emergency Unemployment Compensation Tier I (EUCI), Emergency Unemployment Compensation Tier II (EUCII), Emergency Unemployment Compensation Tier III (EUCIII), Emergency Unemployment Compensation Tier IV (EUCIV), Extended Benefits (EB) and Federal Additional Compensation (FAC). County data does not sum to statewide total.

Source: WRER, North Carolina Department of Commerce, Division of Employment Security
Prepared by North Carolina Department of Commerce, Division of Employment Security 12_2011

Calculating the Unemployment Rate

Question 8

Employed:

People are classified as *employed* if they did any work at all as paid employees during the reference week; worked in their own business, profession, or on their own farm; or worked without pay at least 15 hours in a family business or farm. People are also counted as employed if they were temporarily absent from their jobs because of illness, bad weather, vacation, labor-management disputes, or personal reasons.

Unemployed:

People are classified as *unemployed* if they meet all of the following criteria: they had no employment during the reference week; they were available for work at that time; and they made specific efforts to find employment sometime during the 4-week period ending with the reference week. Persons laid off from a job and expecting recall need not be looking for work to be counted as unemployed.

Civilian Labor Force:

The *civilian labor force* is the sum of employed and unemployed persons. Those not classified as employed or unemployed are *not in the labor force*.

Unemployment Rate:

The *unemployment rate* is the number unemployed as a percent of the labor force

Calculating the Unemployment Rate

◆ National Unemployment Rate

◆ Current Population Survey (CPS)

- ◆ Monthly Survey of 60,000 households nationally
- ◆ Conducted by the US Census for the Bureau of Labor Statistics (BLS)
- ◆ Statistical Estimates are derived from CPS
 - ◆ Civilian Noninstitutional Population 16 years and over
 - ◆ Employed, Unemployed, Not in the Labor Force
 - ◆ Both Seasonally Adjusted and Not Seasonally Adjusted Estimates

◆ State Unemployment Rate

◆ Federal State Cooperative Program (BLS and States)

- ◆ Local Area Unemployment Statistics (LAUS)
- ◆ BLS is responsible for the concepts, definitions, technical procedures, validation, and publication of the estimates
- ◆ CPS is reliable at the national level, sample is too small to provide acceptable reliable estimates as the State and Sub-State Levels

◆ **State Unemployment Rate**

◆ **BLS Calculates State Estimates**

- ◆ Utilizes statistical models to derive estimates
- ◆ State staff input monthly claims information and employment estimates from BLS's Current Employment Statistics Program
- ◆ BLS statistical models combine current and historical data from
 - ◆ CPS, CES and State UI Claims information
- ◆ BLS provides final estimates including employed, unemployed, Labor Force and Unemployment Rate to States
- ◆ Both Seasonally Adjusted and Not Seasonally Adjusted Estimates

◆ **Sub-State Unemployment Rates**

◆ **State staff calculate monthly sub-state estimates utilizing BLS methods, standards & procedures via BLS application systems.**

- ◆ "Handbook method" - Utilizes data from several sources
 - ◆ including CPS, CES, State UI and census,
- ◆ State staff use BLS systems and review generated estimates to ensure accuracy and validity.
- ◆ Estimates are sent to BLS for review and approval

Seasonal Adjustment

- ◆ Over the course of a year, the size of the nation's labor force and the levels of employment and unemployment undergo regularly occurring fluctuations.
- ◆ These events may result from seasonal changes in weather, major holidays, and the opening and closing of schools.
- ◆ The effect of such seasonal variation can be very large. Because these seasonal events follow a more or less regular pattern each year, their influence on the level of a series can be tempered by adjusting for regular seasonal variation.
- ◆ Without seasonal adjustment it is difficult to determine if the monthly level of economic activity has actually declined or is just a result of typical seasonal variation.

NC Unemployed

Question 8

- ◆ Average duration for regular UI benefits during October 2010-September 2011 was **16.3 weeks**
- ◆ Avg. duration 1st Qtr. 2008 – 13.7 weeks
 - Avg. duration 4th Qtr. 2010 – 18.2 weeks
 - In three years, the average duration went up 4.5 weeks
- ◆ November 2011 average weekly regular UI benefit amount was **\$278.33**
- ◆ January 2008 average weekly regular UI benefit amount was **\$265.77**

NC Unemployed

Question 8

- ◆ G.S. 96-8(10) defines when "an individual shall be deemed unemployed" for the purpose of establishing a benefit year and filing a weekly continued claim for unemployment insurance benefits and contains no limitation or definition of what is full-time work.
- ◆ The Employment Security Law is intended to provide unemployment insurance protection to those who are unemployed through no fault of their own. ESC Interpretation No. 256, "Unemployment of Part-time Claimants" (1982.)
- ◆ All state UI laws permit workers facing reduced hours to work to draw "partial" or "underemployment" UI benefits while working part time.

NC Unemployed

Question 8

◆ Part-time Claimants:

- ◆ The N.C. General Assembly specifically added and amended G.S. §§96-8(29 & 96-13(a)(6) in 2003 and 2009, respectively, to protect an individual from being held ineligible or disqualified for benefits because of his/her part-time employment status.
- ◆ For the most part, UI weekly benefits will be lower for unemployed part-time workers because part-time earnings are lower than full-time earnings.
- ◆ In addition, part-time workers tend to remain unemployed for shorter periods than full-time workers

NC Unemployed

Question 8

◆ Attached Claimants

- ◆ ESC Regulation No. 9 permits employers to file weekly "claims for benefits" for an individual who continues to be attached to its payroll and meets the requirement of being unemployed.
- ◆ November 2007, 58.3% of all initial claims were filed for or on behalf of attached claimants.
- ◆ November 2011, 49.19% of all initial claims were filed for or on behalf of attached claimants.
 - ◆ This decrease in attached claims signifies less short-term unemployment and more long-term or permanent separation from employment

Employment Service (ES) Reemployment Efforts

Question 9

◆ Pathways to Employment

- ◆ Create an expectation with ES staff that claimants in danger of exhausting UI benefits are given a higher priority of service in job development, job referral and job readiness efforts.
- ◆ Increase UI claimant awareness of available ES services (like our reemployment program).
- ◆ Develop local community resource guides that ensure ES staff can refer customers to other local services for help as they exhaust benefits.

◆ Reemployment Services

- ◆ A new job classification was created in each ES local office called a “Job Coach”. (ARRA funded).
- ◆ Responsible for reemployment efforts in each office. Focus is to get UI claimants into the office for orientation, job readiness workshops and one-on-one job search planning and job development interviews.
- ◆ DES continues to operate the program and have now opened it up to any ES customer, not just UI claimants.
- ◆ NC also operates a separate and more structured Reemployment Eligibility and Assessment program through a competitive UI grant awarded by USDOL in 2009.
- ◆ ES operates the two programs in tandem to ensure participants can get the benefit of both programs if needed.

Employment Service (ES) Reemployment Efforts

Question 9

◆ Employer Outreach

- ◆ Employer marketing plan to promote ES services to employers.
- ◆ Convene an employer advisory group for provide feedback on local ES initiatives and to ensure a strong partnership with the employer community
- ◆ Host quarterly educational seminars for employers to disseminate information on relevant topics.
- ◆ Increase ES staff outreach visits to local employers.
- ◆ A state level ES Employer Relations Coordinator develops policy/materials and provides guidance and training to support the local offices' employer relations activities.

◆ Job Order Surge Campaign

- ◆ For two years ES has conducted a statewide “Job Order Surge Campaign” to do a high level of employer outreach in a two-week period during the month of May.
- ◆ Over 14,000 North Carolina employers received information about ES employment services.
- ◆ In May 2011, these contacts generated over 3,500 new job openings for the ES job bank.

Employment Service (ES) Reemployment Efforts

Question 9

◆ NC JobConnector

- ◆ Launched January 2011
- ◆ New web-based ES operating system that features an “Automatch” capability in real-time.
- ◆ Compares a new jobseekers work history with available job openings and generates an immediate list of job matches.
- ◆ Job seekers and employers can enter their own profiles or job orders directly into this system and get immediate matches.
- ◆ Allows an incredible amount of detail to be included and can generate very close matches.
- ◆ Has levels of suppression built in to protect employer and job seeker confidentiality to the degree they choose.
- ◆ Continue to refine the system to ensure the job seeker/employer information is complete.

Employment Service (ES) Reemployment Efforts

Question 9

◆ Work Opportunity Tax Credit (WOTC) program

- ◆ A federal tax credit program administered jointly by USDOL and IRS.
- ◆ An incentive program, available to employers who hire new employees with employment barriers from various Congress approved target groups that have historically had difficulties with finding employment development, job referral and job readiness efforts.
- ◆ Current target groups include: IV-A (welfare) recipients, Veterans (living in a household receiving food stamps), Veterans with a Service-Connected Disability, Ex-Felons, Vocational Rehabilitation recipients, Food Stamp recipients, Supplementary Security Income recipients and Long-term welfare recipients. customers to other local services for help as they exhaust benefits.

◆ Veterans Employment Service program

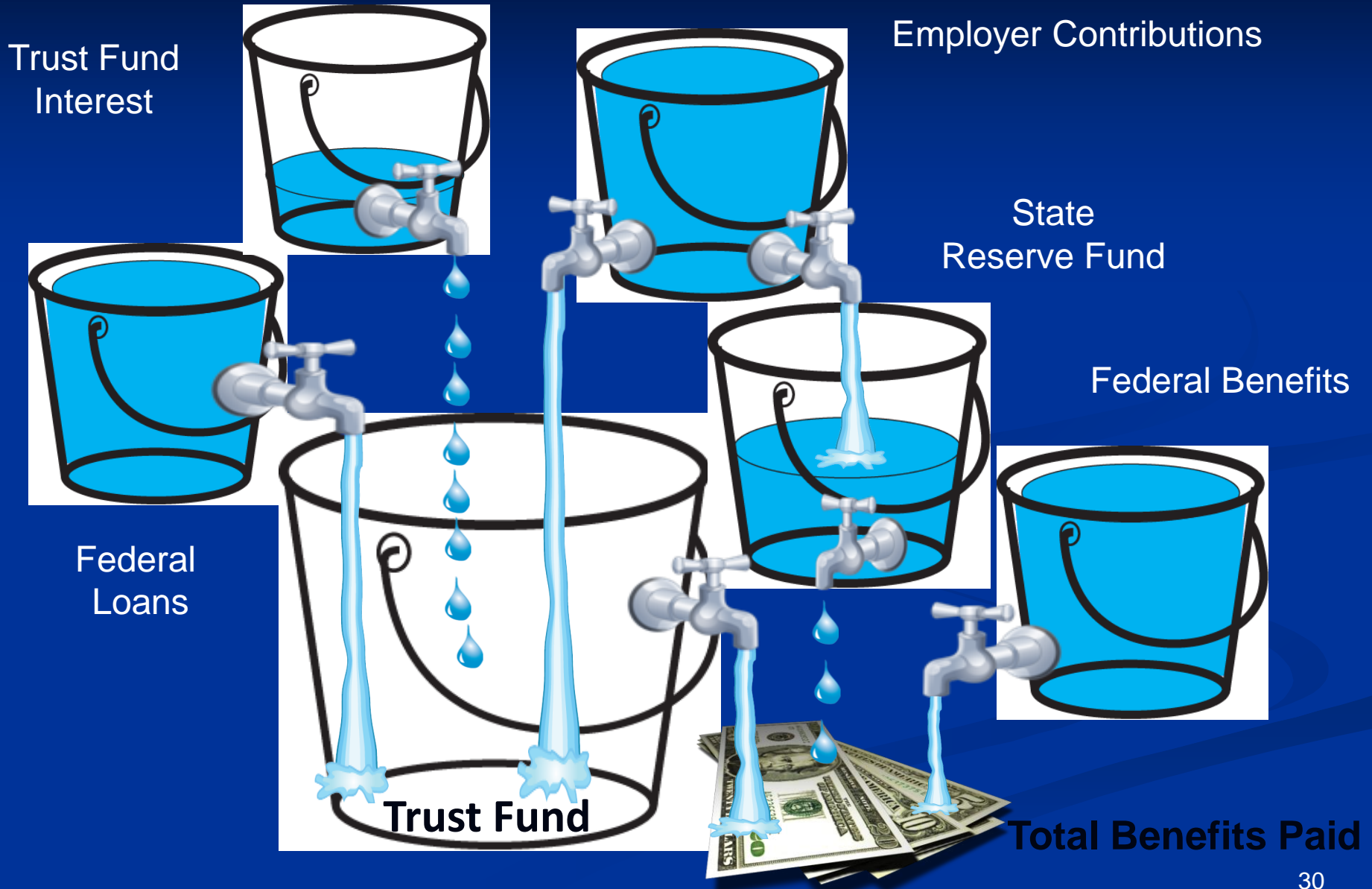
- ◆ ES receives an annual grant from the USDOL, Veterans Employment and Training (USDOL-VETS) to provide services to veterans in all ES local offices using two different staff classifications, the Disabled Veterans Outreach Specialist (DVOS) and Local Veterans Employment Representatives (LVER).
- ◆ Approximately 100 ESC staff are currently funded by this grant and are assigned to local offices based on the population of veterans in each county, and the demand for services in each local office.

Questions 5 & 6

Trust Fund

Analysis

North Carolina Trust Fund Monetary Flow



Employer Accounts

Question 6

- ◆ 195,665 Liable Employers
 - ◆ 19,495 Employers with the highest capped tax rate of 6.84%
 - ◆ ERA balance on July 31, 2011 - <1,995,866,807>
 - ◆ 25,223 Employers with 0% tax rate
 - ◆ 0% Tax rate is available to employers who have a credit ratio of 4% or greater
- ◆ Reimbursable Employers
 - ◆ Non Profits – Must maintain either a 1% balance equal to the previous years taxable payroll, or provide a surety bond equal to the same
 - ◆ Government entities
- ◆ Sent an annual bill for unemployment charges
 - ◆ \$25,704,751 in charges to reimbursable benefits
 - ◆ \$72,292,199 to State and Local Government

Experience Rated Accounts

Question 6

- ◆ Annual Computation July 31
- ◆ 2012 Tax Rates
 - ◆ 195,665 Experience Rated Employers
 - ◆ 48,916 Higher (25%)
 - ◆ 13,640 came off New Employer Tax rate
 - ◆ 70,439 Lower (36%)
 - ◆ 74,352 No Change (38%)

Factors Impacting Trust Fund Solvency

- Short recovery period between recessions
 - Recession 2002-04
 - Recession 2008-10
- Increase in the average duration of weeks
- Severity of the recession
- Tax Laws Changes

Tax Changes

Question 6

- ◆ March 1994: (Senate Bill 151 – Extra Session 1994)
 - ◆ 50% tax rate reduction when fund balance equals or exceeds \$800m
 - ◆ Employers with a credit ratio of 6.4% or more received a tax rate of .01%
 - ◆ Also reduced new employer tax rate from 2.25% to 1.8%
- ◆ February 1995: (Senate Bill 13 – 1995 Session)
 - ◆ Employers with a credit ratio of 5% or more received a tax rate of 0%
- ◆ July 1995: (Senate Bill 180 – 1995 Session)
 - ◆ Imposed a 60% overall tax rate reduction on employers with a credit ratio when the fund ratio was equal to 5.0% or greater

Tax Law Changes

Question 6

- ◆ February 1996: (Senate Bill 2 – Extra Session 1996)
 - ◆ Provided a tax moratorium for all credit ratio employers for 1996
 - ◆ Also lowered new employer tax rate from 1.8% to 1.2%
- ◆ July 1999: (House Bill 275 – 1999 Session)
 - ◆ Training and Reemployment Contribution provided a 20% reduction in employer tax rates while imposing a corresponding 20% contribution for Department of Community College training programs and ESC reemployment services
 - ◆ Expanded 0% tax rate to employers with credit ratios of 4% or greater
 - ◆ Lowered new employer tax rate from 1.2% to 1.0%
 - ◆ Repealed 1-1-2011

Tax Law Changes

Question 6

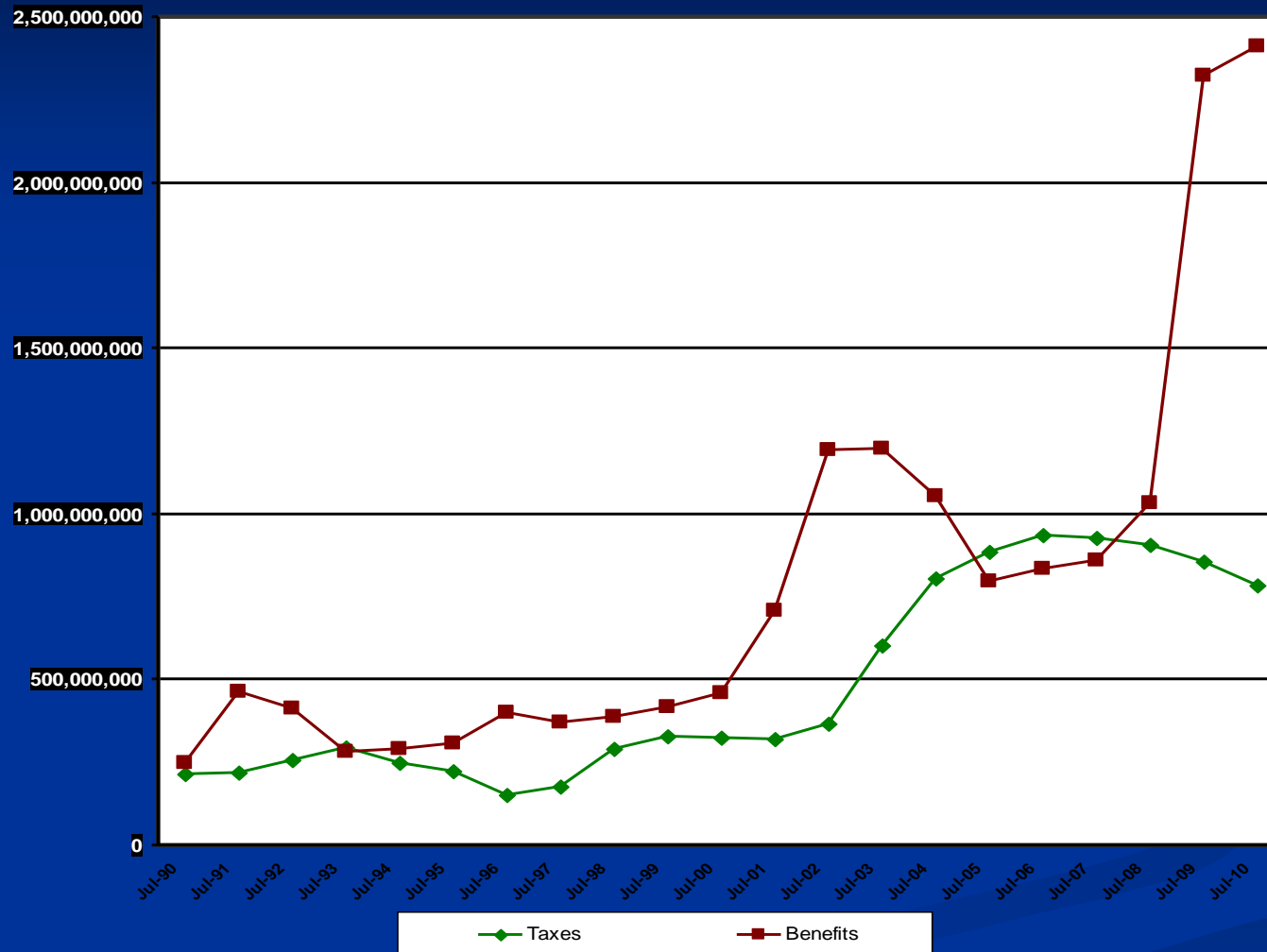
- ◆ July 2003: (HB 1241 – 2003 Session) Imposed a delay in collection of 20% unemployment surtax for one year.
- ◆ 2003 – NC issued \$172 million in Tax Anticipation Notes (TAN) to pay Federal Loans.
- ◆ 2004 – NC issued \$269 million in TANs to pay additional borrowing. These bonds were repaid in 2005.
- ◆ August 2005: (SB 757 – 2005 Session) Raised trigger for 50% tax reduction from \$800 million to 1.95% of gross taxable wages reported to ESC.

Benefits vs. Tax Collections

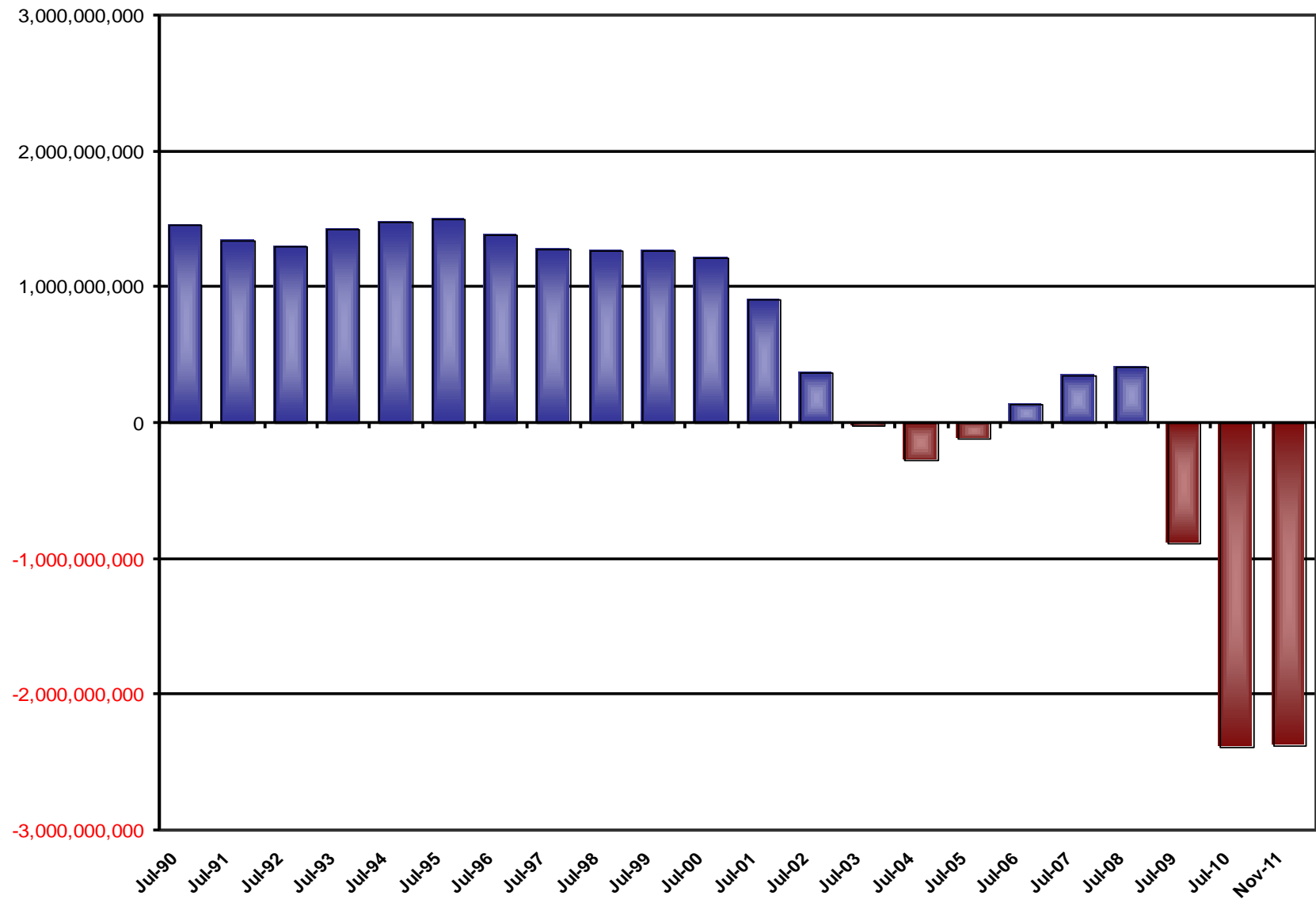
(Thousands)

Year	Tax Collections	Benefits	Trust Fund
1995	\$225,540	\$307,804	\$1,499,887
1996	\$150,656	\$398,847	\$1,383,604
1997	\$177,130	\$371,708	\$1,279,586
1998	\$291,593	\$385,790	\$1,272,798
1999	\$327,527	\$419,319	\$1,267,232
2000	\$326,670	\$459,685	\$1,219,353
2001	\$319,337	\$706,494	\$ 906,711
2002	\$367,970	\$1,192,915	\$ 368,517
2003	\$602,211	\$1,196,798	\$ < 23,433 >
2004	\$803,674	\$1,056,019	\$ < 273,232 >

UI Trends - Taxes and Benefits



UI Trends - Trust Fund Balance



Title XII of Social Security Act

- ◆ “...provides for state advances (loans) when a state determines their Unemployment Fund will not have adequate funding to allow for the payment of Unemployment Benefits.”
- ◆ Current loan balance: \$2.6 B

State Options to Address Solvency Issue Question 6

Tax Policy Review Committee

- ◆ Internal Committee formed in August 2010 to provide recommendations on tax policy for forward funding the unemployment trust fund
 - ◆ Utilized USDOL staff assistance as well as the Benefit Financing Model developed to analyze and improve solvency
- ◆ Report completed February 21, 2011
- ◆ Presentation to Senate Finance Committee on March 9, 2011

Internal Committee Options

- ◆ Adjust Taxable Wage Base
- ◆ New Employer Tax Rate
- ◆ Modify Existing Tax Schedule
- ◆ Eliminate 0% Tax Rate

Taxable Wage Base

Question 6

- ◆ Taxable Wage Base in North Carolina is indexed annually to the average annual insured wage.
 - ◆ G.S. 96-9(a)(5) sets the formula at 50% of the Average yearly insured wage rounded to the nearest multiple of \$100.
- ◆ Average yearly insured wage – \$40,787.07 x 50%
 - ◆ Taxable Wage Base for 2012 - \$20,400.00
 - ◆ Taxable Wage Base for 2011 - \$19,700.00

Internal Committee Recommendations Question 6

- ◆ Incrementally increase Taxable Wage Base
 - ◆ 60% - 2012; 70% - 2013; 80% - 2014
 - ◆ Cost to employers:
 - ◆ \$10 - \$20 million – Year 1
 - ◆ \$30 - \$40 million – Year 2
 - ◆ \$30 - \$40 million – Year 3
- ◆ Require approximately \$700 million in collections

Adjust Existing Statutes

Question 6

- ◆ **Adjust Standard Beginning Rate for New Employers**
 - ◆ New Employers in North Carolina have a 1.2% new employer rate for the first two years of liability
 - ◆ Only Oklahoma and South Dakota have rates at or below 1.2%
 - ◆ Change the Standard Beginning Rate from 1.2% to 2.7%
 - ◆ Generate additional \$37 million annually
- ◆ **Eliminate 0% Tax Rate**
 - ◆ 19,009 employers have a 0% tax rate for 2012
 - ◆ Only 11 states provide 0% on their highest tax rate schedule
- ◆ **Adjust the tax rates for Debit Ratio Employers**
 - ◆ Debit Ratio Employers are employers that have a negative balance in their employer account on the computation date
 - ◆ Current Rates are 2.9% - 5.7%
 - ◆ Approximately 49,000 employers have a deficit balance in their ERA
 - ◆ 19,495 employers are subject to the highest tax rate allowable
 - ◆ 13,332 of these employers had charges to their account last year totaling almost \$560 million
 - ◆ The cumulative balance in the employer accounts for the 19,495 employers on July 30 was <\$1,995,866,807>

Options by Other States to Address Solvency

- ◆ Impose new penalty unemployment insurance contribution rates on employers who are out of compliance due to failure to file or failure to pay
 - ◆ New York, Ohio, Pennsylvania
- ◆ Impose temporary solvency surcharges
 - ◆ 18 states
- ◆ Impose a tax on employees
 - ◆ Alaska, New Jersey, and Pennsylvania
- ◆ Participate with the IRS in the Questionable Employment Tax Practice (QETP) initiative
 - ◆ This is a program that helps identify employer tax fraud

Options by Other States to Address Solvency

- ◆ Eliminate non-charging of charges for UI benefits
 - ◆ Employers are not liable for benefits paid for substantial fault cases
 - ◆ Approximately \$3 million in non-charging benefits are paid a year
- ◆ Adjust maximum number of weeks
 - ◆ South Carolina and Missouri – 20 weeks
 - ◆ Arkansas – 25 weeks
- ◆ Adjust the minimum and maximum weekly benefit amounts
 - ◆ \$45 minimum
 - ◆ \$521 maximum

Question 5

Comparison of North Carolina With Other States

Tax Foundation Report

Robert D. Hinchman October 2011

- ◆ Six states (Arkansas, Florida, Illinois, Michigan, Missouri, and South Carolina) have reduced the maximum period of state benefits below the previously-universal 26 weeks.
- ◆ Three states adopted significant packages of UI reforms.

Florida Reduced Benefit Weeks and Tightened Eligibility Requirements

Rhode Island Reduced Average Weekly Benefit and Tightened Eligibility Requirements

South Carolina Dramatically Expanded Experience Rating and Disqualifies Seasonal Employees

Tax Foundation Report

Robert D. Hinchman October 2011

Reductions in Weeks of Benefits

- ◆ Arkansas (25 weeks, effective March 2011)
- ◆ Florida (a sliding scale of 12 to 23 weeks, effective January 2012)
- ◆ Illinois (25 weeks, effective January 2012)
- ◆ Michigan (20 weeks, effective January 2012)
- ◆ Missouri (20 weeks, effective April 2011)
- ◆ South Carolina (20 weeks, effective June 2011)

Tax Foundation Report

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- ◆ 25 states increased their taxable wage base; the average base in the United States has risen each year: \$11,696 in 2008, \$12,241 in 2009, \$12,970 in 2010, and \$13,451 in 2011.
- ◆ A number of states have also increased minimum and maximum tax rates (20 states in 2010), increased rates for new employers (13 states in 2010), imposed surcharges on all employers (11 states in 2010), and changed maximum and minimum benefits.
- ◆ Indiana, Georgia, Massachusetts, New Jersey, and South Carolina passed bills canceling or delaying scheduled UI tax increases.
- ◆ Idaho and Texas have borrowed from private sources to pay benefits rather than from the federal government, "replacing federal borrowing costs with (potentially lower) costs of the private bond market, but...not addressing structural financing issues."

Employer Taxes

- ◆ Employer tax rates are experience rated and computed annually
 - ◆ Beginning year balance + taxes paid – contributions = Ending balance
 - ◆ Ratio of the ending balance to the last three years of taxable payroll for the last three years
- ◆ Tax Rate Schedule is set each year in accordance with 96-9(b)(3)(d)
 - ◆ Establishes a ratio of trust fund balance to total annual taxable wages
 - ◆ Been at the highest tax schedule for 9 years

Experience Rating of Employers

- ◆ Reserve Ratio - Rates are based on the ratio of the employer's account balance to taxable payroll (32 states including NC)
- ◆ Benefit Ratio – Rates are calculated without consideration of contributions and relates benefits paid directly to payroll. (18 states)

Comparison of Taxable Wage Base 10 Largest States

	Taxable Wage <u>Base</u>	Lowest Tax <u>Table</u>		Highest Tax <u>Table</u>		New Employer <u>Rate</u>
California	\$ 7,000	0.10%	5.40%	1.50%	6.20%	3.40%
Texas	\$ 9,000	0.00%	6.00%	0.00%	6.00%	2.7, or Ind. Avg.
New York	\$ 8,500	0.00%	5.90%	0.90%	8.90%	2.70%
Florida	\$ 7,000	0.10%	5.40%	0.10%	5.40%	2.70%
Illinois	\$ 12,520	0.20%	6.40%	0.30%	9.60%	3.35%, or Indust. Avg.
Pennsylvania	\$ 8,000	0.30%	7.70%	0.30%	7.70%	3.7030%, 10.2626% Construction
Ohio	\$ 9,000	0.00%	6.30%	0.30%		2.7%, 7.0% Construction
Michigan	\$ 9,000	0.06%	10.30%	0.06%	10.30%	2.7%, 7.9% Construction
Georgia	\$ 8,500	0.01%	5.40%	0.03%	7.29%	2.70%
North Carolina	\$ 19,700	0.00%	5.70%	0.00%	5.70%	1.20%

2011 Benefit Amounts

10 Largest States

	Minimum and Maximum <u>Benefits Amount</u>		Wages for Maximum Weekly <u>Benefit Amount</u>	
	<u>Lowest</u>	<u>Highest</u>	<u>High Qtr.</u>	<u>Base Period</u>
California	\$40	\$450	\$11,675	\$14,594
Texas	\$60	\$415	\$10,363	\$15,337
New York	\$64	\$405	\$10,517	\$15,776
Florida	\$32	\$275	\$7,150	\$10,725
Illinois*	\$51/\$77	\$376/\$461	\$8,484	\$10,605
Pennsylvania*	\$35/\$43	\$573/\$581	\$14,898	\$22,840
Ohio*	\$108	\$387/\$524		\$15,480 in 20 weeks
Michigan*	\$117/\$147	\$362	\$8,830	\$13,245
Georgia	\$44	\$330		\$13,860 in 2 Qtrs
North Carolina	\$43	\$506	\$13,156	\$13,156

* Benefit amount is adjusted for a dependent allowance

State Unemployment Debt

10 Largest States

States	Debt (12/15/2011)
California	\$9,566,716,796.27
Texas	Issued Bonds Nov. 2010
New York	\$3,296,438,637.36
Florida	\$1,722,700,000.00
Illinois	\$2,033,904,566.93
Pennsylvania	\$3,123,737,549.04
Ohio	\$2,113,387,131.00
Michigan	\$3,208,954,991.15
Georgia	\$721,080,472.00
North Carolina	\$2,630,428,535.91

27 States and the Virgin Islands are currently borrowing

Appeals Process

10 Largest States

Question 5

	Appeals Filing Deadline (days)		Appellate Entity	Number of Members
	<u>1st Level</u>	<u>2nd Level</u>		
California	20	20	Appeals Board	7
Texas	14	14	Appeals Commission	3
New York	30	20	Appeals Board	5
Florida	20	20	Appeals Commission	3
Illinois	30	30	Board of Review	5
Pennsylvania	15	15	Board of Review	3
Ohio	21	21	Review Commission	3
Michigan	30	30	Board of Review	5
Georgia	15	15	Board of Review	3
North Carolina	15	10	Board of Review	3

Appeals

G.S. 96-15

Question 5

- ◆ Claim Adjudicated
- ◆ Appeals Referee - Aggrieved Party may appeal the adjudicator's decision within 30 days of the date of notification or mailing of conclusion. DES – Aggrieved Party may appeal the referee's decision within 13 days of the date of notification or mailing of the decision rendered in the appeals hearing.
- ◆ Court System – Aggrieved Party may appeal the DES decision to Superior Court within 30 days of notification of DES decision

Appeals Decisions Rendered 2010 Question 5

◆ First Level Appeals	53,565	
◆ Claimant		37,407
◆ Ruled in Favor	49.3%	
◆ Employer		16,158
◆ Ruled in Favor	54.6%	
◆ Second Level Appeals	10,576	
◆ Claimant		7,926
◆ Ruled in Favor	19.1%	
◆ Employer		
◆ Ruled in Favor of Claimant	19.4%	2,650

Question 4

Improper Payment
USDOL Report

USDOL Report on Improper Payments

◆ US Department of Labor

- ◆ Produces an annual report on US benefit integrity
 - ◆ Reviews 24,000 cases nationally; 520 in North Carolina
 - ◆ Uses a Benefit Accuracy Measurement to establish a percentage of Improper Payments based on the last three years and assigns a rate
 - ◆ Rate is applied to total benefit payments

Unemployment Benefit Integrity

◆ Benefit Accuracy Measure (BAM)

◆ Reviews about 520 cases annually

- ◆ Establishes a improper payment rate based on the review of randomly selected cases.
- ◆ Rates and Improper Payment amounts are based on a three year average from July 1, 2008 – June 30, 2011
- ◆ North Carolina's rate is 8.86%
 - ◆ US – 11.05%
 - ◆ Virginia – 17.77%;
 - ◆ S.C. – 17.90%
 - ◆ Tennessee – 14.47%
 - ◆ Georgia – 6.94%

Improper Payments Causes

◆ Benefit Year Wages

- ◆ The claimant continues to claim and receive benefits after returning to work (45%)
 - ◆ Improving the Continued Claims Process
 - ◆ Improving methods to detect Return To Work

◆ Separation Issues

- ◆ Employers or their third party administrators do not submit timely or accurate separation information (34%)
 - ◆ Timeliness of Determinations
 - ◆ Enhancing Adjudication Decision Capabilities

◆ Work Search

- ◆ Claimants fail to register with the state's Employment Service (ES) as dictated by state law (10%)

Improper Payment Rate

<u>State</u>	<u>Rate</u>
California	6.51%
Texas	12.66%
New York	8.27%
Florida	6.86%
Illinois	12.84%
Pennsylvania	10.51%
Ohio	16.37%
Michigan	8.86%
Georgia	6.94%
North Carolina	8.86%

IPIA Improper Payment Rate — This is the improper payment rate for the UI program that the U.S. Department of Labor reports to the Office of Management and Budget, as required by the Improper Payments Information Act (IPIA). The IPIA improper payment rate is based on results of the BAM statistical survey, and includes both overpayments and underpayments.

UI Benefits Integrity

- ◆ Implements weekly cross matches with NDNH (National Directory of New Hire) and develop automated process to immediately notify UI claimants when you get a “hit”
 - ◆ Joined the pilot program with 10 other states to start a weekly cross match to reduce improper payments
- ◆ Implement SIDES (State Information Data Exchange System)
- ◆ Implement a Cross-Functional Integrity Task Force

Southeastern Consortium for Unemployment Benefits Integration

◆ SCUBI

- ◆ Consortium of 4 Southeastern States
- ◆ Tennessee is the lead state, along with NC, SC and GA
- ◆ \$8 million feasibility study funded by US DOL in 2009
- ◆ Focus on determining if a multi state-shared UI benefits system is possible and cost effective for the delivery of UI benefits and related programs
- ◆ Focus on gathering information regarding UI benefits systems and business process
- ◆ Identify strengths and weaknesses
- ◆ Focus on UI system attributes, features and requirements
- ◆ Deliverables will include detailed system requirements that can be used to develop new UI benefit payment system

Opportunity North Carolina

- ◆ For FY 2011-12, the N.C. General Assembly approved an appropriation of \$1 million to fund ONC.
- ◆ Piloted in six DES offices, plans include expansion to other DES offices.
- ◆ Provides individuals up to 24 hours of on-the-job training for up to 6 weeks.
- ◆ Employers have no costs, except the time spent training a UI recipient. Workers' Compensation coverage is provided by ONC.
- ◆ 49 Employers have volunteered; 73 recipients have had at least one week of training; 37 have been employed after participation; 275 weeks have been completed.



Accomplishments and Initiatives

- ◆ Created State Employee Career Transition Office to Assist Unemployed Government Workers
- ◆ Opened New Remote Service Center: Facility Designed to Enhance Teamwork, Increase Productivity and Create a Higher Level of Customer Service.
- ◆ Secured a \$205 Million Federal Grant for Modernization of UI Computerized Benefit System
- ◆ Processed Over \$1 Million in Federal Disaster Unemployment Assistance Claims for Citizens who Became Unemployed as a Direct Result of Tornados and Hurricane Irene.
- ◆ Strengthened Internal Audit and Compliance
- ◆ Enhanced Security of Local Offices and Raleigh Central Office
- ◆ Joined Southeastern Consortium for Unemployment Benefits Integrity (SCUBI) to Work with Neighboring States in Developing a Cost Effective System for UI Benefit Delivery
- ◆ Eight ESC Employees Earn Governor's Awards for Outstanding State Government Service and Outstanding Public Service
- ◆ National Jobs for Veterans Website Designed by ESC Contractors